



*Elias-John  
Kies*

## **XBRL's Path to Adoption**

Learn more about an SEC Advisory Committee's proposed XBRL implementation plan and cost of filing and assurance services.

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*by Elias-John Kies, CFA*

The plans are outlined, the tools are available and the rate of acceleration is increasing. This describes the current international climate for XBRL (eXtensible Business Reporting Language) adoption. With the electronic "barcoding" of financial statements, XBRL will revolutionize analysis and reduce costs for both issuers and investors. While certain countries such as China and the Netherlands have already mandated XBRL, the U.S. is taking measured steps toward widespread acceptance of the Language.

In February 2008, the SEC's "*Advisory Committee on Improvements to Financial Reporting*" proposed a [schedule](#) (PDF) for the implementation of XBRL regulation.

The phase-in plan, with pre-conditions, is outlined below. Descriptions of key terms are listed in the sidebar chart below. These terms will help you understand the legal liability and XBRL-tagging processes. Key terms are highlighted in bold.

### **Key Terms**

- **Filed financials:** A report a company is liable pertaining to false or misleading material filed with the SEC.
- **Furnished financials:** A report a company is liable when proven to intentionally distribute false or misleading material to the SEC.
- **Financial statement tags:** Specific XBRL tags for each element of the main financial statements.
- **Block tags:** An individual XBRL tag for a

section, not the components within; proposed for initial footnote tagging.

- **External XBRL Method:** A reporting company produces its financial statements in traditional manner and these statements are subsequently mapped with XBRL tags. This is the current method of XBRL data.
- **Internal XBRL Method:** A reporting company integrates XBRL in its internal operating process. This does not require mapping since all internal data is already in XBRL format.

## Mandate Pre-conditions

The committee has outlined three pre-conditions to the proposal:

- Successful XBRL U.S. GAAP Taxonomy testing.
- Adequate capacity for reporting companies to use the U.S. GAAP Taxonomy.
- The EDGAR system updated to render the tagged information

## Mandate Proposal

The proposed phase-in for mandatory XBRL filings is:

1. The largest 500 domestic public corporate filers, based on public float, will be required to **furnish** a separate XBRL document that includes **tagged financial statements** and **block-tags** of the footnotes.
2. Domestic large accelerated filers will be required to submit the furnished file beginning one year after Phase 1.
3. Once the previous phases are complete, the SEC will investigate the transition from furnished reports to official XBRL-**filed** reports. The expansion of the program to all public filers will also be investigated.

## Cost of Implementation: XBRL Reporting

While this phase-in plan may appear reasonable at first glance, dissension exists within the Committee on the speed of implementation. Peter Wallison, a committee member, outlines his disagreement with the implementation of this proposal (view appendix of the document by clicking on the above-listed schedule link). He outlines that Phase 1 and Phase 2 could stretch until 2011 with only an approximate 2,000 companies filing with furnished XBRL documents.

The committee and corporate filers are concerned about the potential costs of reporting in

XBRL and this timeline is designed to ease this potential burden. Most of these concerns are due to misconceptions. With a quick inquiry to a financial printer, a corporate controller will find the cost of mapping their financial statements quite nominal, both in cash cost and time dedicated. In an attempt to inform the public, financial printers such as RR Donnelley have developed Q&A (question and answer) Web sites.

### **TryXBRL.com**

RR Donnelley and Edgar® Online have jointly created a [Web site](#) chock full of factual information about XBRL and the steps needed to incorporate it into your filing. Edgar® Online has tagged current, as well as historic financials for over 12,000 companies reporting to the SEC with U.S. GAAP XBRL data.

A corporate representative can visit the site and view their company's XBRL data alongside industry competitors. This site delineates XBRL fact from fiction.

### **Cost of Implementation: Assurance**

Wallison identifies potential issues with the furnished versus filed status of reports. Can investors trust furnished reports and how useful are these for analysis? He suggests that this issue has risen because of a misconstrued notion of the cost for assurance services when an issuer is obligated to file XBRL documents.

It is not being suggested that the majority of companies intentionally publish misleading XBRL documents in a furnished version, but certainly without the scrutiny of assurance services, erroneous information may be created in the conversion process. Due to the reduced liability a company faces with furnished documents, the filer may not devote adequate resources to the mapping process thereby fostering an environment where erroneous data is captured. This problem will hurt investor confidence in XBRL data, which could further postpone the adoption of a filing mandate.

Wallison describes the assurance process and fees as quite nominal, especially if the company uses an **Internal XBRL Method**. With this method, the majority of the work is ensuring all versions of the financial statements coincide. This process will likely be handled through an electronic verification system. If the company uses an **External XBRL Method**, the assurance fee would be slightly higher.

### **Conclusion**

The mandate of XBRL will benefit both corporate issuers and investors, however, we must ensure that XBRL implementation is based upon factual information. What do corporate filers need to stay afloat in the XBRL pool? We shouldn't give life vests and inflatable rafts when water wings are adequate.

For more information, visit <http://www.tryXBRL.com> and ensure we are on pace with the international community to adopt XBRL.

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[\*\*Elias-John Kies\*\*](#), CFA, is a Senior Analyst for Norwalk, Connecticut-based EDGAR Online Inc. (NASDAQ: EDGR) — a provider of global business and financial information.

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